

AR27

ANNUAL REPORT

PINE POINT MINES LIMITED

Year ended December 31, 1977

CONTENTS

Directors and Officers

Directors' Report

Financial Statements

Five Year Financial Highlights

PINE POINT MINES LIMITED

Year Ended December 31, 1977

ANNUAL REPORT

PINE POINT MINES LIMITED

Incorporated under the laws of Canada, May 16, 1951
Head Office: Pine Point, N.W.T.
Mailing Address: c/o Cominco Ltd.,
200 Granville Street, Vancouver, B.C.
V6C 2R2

DIRECTORS

F. E. Burnet
R. P. Douglas
G. H. D. Hobbs
R. A. MacKimmie, Q.C.

W. M. Young

A. V. Marcolin
J. H. Salter (Retired November 30, 1977)
J. B. Smith
W. G. Wilson

OFFICERS

R. P. Douglas President and Chief Executive Officer
P. C. Stewart Secretary

TRANSFER AGENT AND REGISTRAR

The Royal Trust Company
555 Burrard Street, Vancouver, B.C. V6B 3R7
600-7th Avenue S.W., Calgary, Alberta T2P 0Y6
Bay & King, Toronto, Ontario M5W 1P9

AUDITORS

Thorne Riddell & Co.
Vancouver, B.C.

PINE POINT MINES LIMITED

DIRECTORS' REPORT TO THE SHAREHOLDERS

The Board of Directors is pleased to present the 27th Annual Report for the year ended December 31, 1977. The significantly higher prices received for lead concentrate and reduced distribution and stripping costs were offset by lower prices for zinc concentrate. Of particular note is that ore reserves at Pine Point increased from 36.2 to 37.5 million tons after allowance for the 3.4 million tons milled during the year.

FINANCIAL

Net earnings for 1977 were \$9,391,000 or \$2.08 per share compared with \$9,311,000 or \$2.06 per share in 1976. Capital expenditures of \$7,085,000 were made mainly towards the purchase of a large dragline and a related power system which will be operative in 1979.

Dividend payments in 1977 amounted to \$2.50 per share compared with \$5.50 per share in 1976.

SALES

Concentrate sales were \$74,816,000 as compared with \$85,972,000 in 1976. Lead concentrate sales volume at 81,000 tons was up slightly from the previous year, with 1977 lead metal prices continuing to strengthen. As a result of high consumer inventories and refinery production cutbacks zinc concentrate sales volume declined to 263,000 tons from 334,000 tons in 1976. In 1977 zinc metal prices reflected this lack of demand by declining sharply toward the year end. The negotiated reduction in rail freight rates and reduced volume of concentrate sales resulted in lower distribution costs for the year.

PINE POINT MINES LIMITED

In 1977, 28% of the lead concentrate sales and 84% of the zinc concentrate sales were made in Canada, with the balance mainly to Japan and Europe.

OPERATIONS (1976 Comparative Data in Brackets)

Ore treated in the concentrator totalled 3,443,000 (3,773,000) tons with an average grade of 2.1 (1.7)% lead and 5.3 (5.3)% zinc. Production amounted to 85,000 (72,000) tons of lead concentrate and 290,000 (323,000) tons of zinc concentrate. Year-end inventories were 9,000 (5,000) tons of lead concentrate and 60,000 (33,000) tons of zinc concentrate.

Production was from seven pits; two new pits were brought into production and one pit was closed. The M-40 underground test mine was suspended during the early part of the year because of the soft zinc market.

Considerable plant test work was carried out to reduce the magnesium and calcium levels in zinc concentrates produced from one of the orebodies. Modifications to the leach plant will be required to meet specifications now set by the zinc smelters.

Ore haulage distances from the producing pits were extended slightly during the year and now range from eight miles east to ten miles west of the mill. Overburden and waste removal was 7.9 (13.1) million tons and it is anticipated this level will continue through 1978.

Pit dewatering was on schedule with pumping capacity of 7,200 horsepower. The dewatering techniques have established that open pit ore can be successfully mined to a depth of 325 feet below surface. The total cost of the pit dewatering program in 1977 was \$2.8 million.

The 30 yard walking dragline is scheduled for operation in 1979. This machine will remove overburden from orebodies at reduced costs, thereby permitting the mining of deeper and smaller orebodies.

An extension to the heavy equipment shop and a new change house and maintenance shop for the concentrator were nearing completion at the year-end. These facilities will improve working conditions and provide more effective maintenance.

PINE POINT MINES LIMITED

The Company continued to perform a number of activities related to the protection and improvement of the environment. A program of reclamation has been instituted at completed open pit sites and studies on these and other matters continue.

EXPLORATION

Property exploration activity continued at a level close to that of the last five years, with emphasis on a combination of geophysical work and diamond drilling costing \$1.6 (\$1.1) million with the results noted previously. General reconnaissance expenditures in a joint venture with Cominco Ltd. in an area north of Great Slave Lake amounted to \$90,300.

PERSONNEL

In 1977, the labour supply was adequate, with the exception of certain skilled tradesmen. Turnover was lower at 41% compared to 71% in 1976 and 100% in 1975. The total work force was reduced by 100 to 596 employees at the end of 1977 as a result of reduced activity in all areas. The program of consultation with regional native community leaders to stimulate interest in work at the mine continues. At year-end the Company employed 53 employees of native origin.

At the end of November, 1977, Mr. J. H. Salter retired as Chairman and as a Director of the Company. The Board expresses its deep appreciation for his outstanding contribution to the Company since operations began over 12 years ago.

The Board of Directors is grateful to the employees for their dedicated efforts during the past year.

On behalf of the Board

R. P. Douglas
President and Chief Executive Officer
Yellowknife, N.W.T.

PINE POINT MINES LIMITED

STATEMENT OF EARNINGS AND EARNINGS REINVESTED IN THE BUSINESS

Year ended December 31, 1977

	1977	1976
	(thousands)	
REVENUE		
Sales	\$74,816	\$85,972
Income from investments	830	1,331
	<u>75,646</u>	<u>87,303</u>
COSTS AND EXPENSES		
Cost of product sold	32,517	35,843
Distribution	19,233	27,267
Selling	69	226
General and administrative	1,798	1,799
Depreciation	4,315	4,123
Depletion	2,759	2,534
	<u>60,691</u>	<u>71,792</u>
EARNINGS BEFORE INCOME TAXES	<u>14,955</u>	<u>15,511</u>
INCOME TAXES		
Current	5,375	5,387
Not currently payable	189	813
	<u>5,564</u>	<u>6,200</u>
NET EARNINGS (\$2.08 per share; 1976 — \$2.06)	9,391	9,311
Earnings reinvested in the business at beginning of year	14,482	30,011
	<u>23,873</u>	<u>39,322</u>
Dividends (\$2.50 per share; 1976 — \$5.50)	<u>11,291</u>	<u>24,840</u>
EARNINGS REINVESTED IN THE BUSINESS AT END OF YEAR	<u>\$12,582</u>	<u>\$14,482</u>

PINE POINT MINES LIMITED

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31, 1977

	1977	1976
	(thousands)	
SOURCE OF FUNDS		
Funds provided from operations		
Net earnings	\$ 9,391	\$ 9,311
Add:		
Depreciation and depletion	7,074	6,657
Income taxes not currently payable	189	813
	16,654	16,781
DECREASE IN WORKING CAPITAL	2,429	12,890
	<u>\$19,083</u>	<u>\$29,671</u>
APPLICATION OF FUNDS		
Mining properties and development	\$ Nil	\$ 917
Buildings, equipment and construction in progress	7,085	3,210
Repayment of long-term debt	707	704
Dividends	11,291	24,840
	<u>\$19,083</u>	<u>\$29,671</u>

THORNE RIDDELL & CO.

AUDITORS' REPORT

To the Shareholders of
Pine Point Mines Limited

We have examined the balance sheet of Pine Point Mines Limited as at December 31, 1977 and the statements of earnings and earnings reinvested in the business and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, B.C.
January 26, 1978

Thorne Riddell & Co.
Chartered Accountants

PINE POINT

(Incorporated un

BALANCE SHEET

	1977	1976
	(thousands)	
CURRENT ASSETS		
Cash and short-term investments	\$ 4,507	\$ 3,217
Trade accounts receivable (note 2)	3,884	11,712
Inventories (note 3)	9,323	7,632
Prepaid expenses	5,085	2,860
	<u>22,799</u>	<u>25,421</u>
FIXED ASSETS		
Land, buildings and equipment	55,097	53,515
Less accumulated depreciation	<u>37,149</u>	<u>32,834</u>
	17,948	20,681
Construction in progress (note 6)	5,510	—
	<u>23,458</u>	<u>20,681</u>
Mining properties and development	36,968	36,975
Less accumulated depletion	<u>27,315</u>	<u>24,556</u>
	9,653	12,419
	<u>\$55,910</u>	<u>\$58,521</u>

Approved by the Board:

R. P. Douglas, Director

M. N. Anderson, Director

MINES LIMITED

(Laws of Canada)

DECEMBER 31, 1977

	1977	1976
	(thousands)	
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 5,709	\$ 7,244
Income taxes	1,862	521
Long-term debt due within one year	<u>707</u>	<u>706</u>
	<u>8,278</u>	<u>8,471</u>
LONG-TERM DEBT		
Agreements to purchase mining properties without interest, payable in 1978	700	1,400
Housing mortgages	<u>159</u>	<u>165</u>
	859	1,565
Less portion due within one year	<u>707</u>	<u>706</u>
	<u>152</u>	<u>859</u>
INCOME TAXES PROVIDED FOR BUT NOT CURRENTLY PAYABLE	<u>5,737</u>	<u>5,548</u>
SHAREHOLDERS' EQUITY		
Capital:		
Authorized — 5,000,000 shares of no par value		
Issued and fully paid — 4,516,363 shares	29,161	29,161
Earnings reinvested in the business	<u>12,582</u>	<u>14,482</u>
	<u>41,743</u>	<u>43,643</u>
COMMITMENTS (note 6)	<u>\$55,910</u>	<u>\$58,521</u>

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounts of the Company are prepared in accordance with generally accepted accounting principles in Canada and applied on a basis consistent with that of the preceding year.

Inventories

Inventories of concentrates are valued at the lower of cost (determined on the monthly average method) and net realizable value. Stores and operating supplies are valued at average cost less appropriate allowances for obsolescence.

Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost and include the cost of renewals and betterments. Repairs and maintenance costs are charged against income as incurred. Depreciation is calculated on a straight line basis related to the estimated life of ore reserves. Depreciation is not provided on major additions until commencement of commercial production.

Mining Properties and Development

Expenditures on general exploration and development are charged against earnings as incurred. Expenditures on the development of new mining properties are capitalized and amortized against earnings by charges for depletion based on the estimated life of ore reserves.

Income Taxes

The Company follows the tax allocation method of providing for income taxes. Taxable income may be different from reported earnings before income taxes to the extent that capital cost allowances and development expenditures claimed for tax purposes differ from depreciation and depletion recorded in the accounts. The difference between the taxes currently payable each year and those charged against earnings is accumulated and carried forward on the balance sheet under the heading of Income Taxes Provided For But Not Currently Payable.

Foreign Currency Translation

Current assets and current liabilities denominated in foreign currencies are translated at year-end rates of exchange. The resulting exchange adjustments are included in the determination of earnings.

PINE POINT MINES LIMITED

Revenue Recognition

Revenues are recorded in the accounts when title passes to the buyer. Revenues are estimated at the time of sale and may be subject to adjustment on final settlement to reflect changes in metal prices, weights and assays.

2. TRADE ACCOUNTS RECEIVABLE

	1977	1976
	(thousands)	
Shareholder, Cominco Ltd.	\$ —	\$ 5,369
Associated companies	683	328
Others	3,201	6,015
	<u>\$ 3,884</u>	<u>\$11,712</u>

3. INVENTORIES

	1977	1976
	(thousands)	
Concentrates	\$ 5,549	\$ 3,889
Stores and operating supplies	3,774	3,743
	<u>\$ 9,323</u>	<u>\$ 7,632</u>

4. DIRECTORS' AND OFFICERS' REMUNERATION

In 1977, total remuneration of \$21,600 was paid to the nine directors. No remuneration was paid to the three officers as officers; two officers were also directors.

5. ANTI-INFLATION PROGRAMME

In 1975, the Government of Canada passed the Anti-Inflation Act. Under this legislation, the Company is subject to controls on revenues, profits, employee compensation and shareholders' dividends.

6. COMMITMENTS

The Company has undertaken a capital program for the purchase and erection of a dragline with supporting ancillary equipment and facilities. At December 31, 1977 the unexpended amount is \$16,600,000. The dragline is expected to be in commercial use in 1979.

PINE POINT MINES LIMITED

HIGHLIGHTS — 5 YEAR

(all dollar amounts in millions except per share amounts)

OPERATIONS	1977	1976	1975	1974	1973
Sales of products and services	\$ 74.8	\$ 86.0	\$ 91.0	\$126.5	\$ 85.2
Net earnings	9.4	9.3	16.9	36.9	20.6
— per common share	2.08	2.06	3.73	8.17	4.56
Funds from operations	16.7	16.8	23.7	43.9	27.2
— per common share	3.69	3.72	5.25	9.73	6.02
Dividends on common shares	11.3	24.8	20.3	24.8	16.9
— per common share	2.50	5.50	4.50	5.50	3.75
Capital expenditures	7.1	4.1	5.5	6.9	2.7
Total employment cost	14.5	14.4	12.6	10.0	7.7
Number of employees	596	695	652	629	550

FINANCIAL POSITION

Assets:					
Working capital	\$ 14.5	\$ 17.0	\$ 29.9	\$ 32.8	\$ 17.9
Fixed assets (net)	33.1	33.1	35.6	36.8	36.8
Other assets	—	—	—	—	0.9
	<u>\$ 47.6</u>	<u>\$ 50.1</u>	<u>\$ 65.5</u>	<u>\$ 69.6</u>	<u>\$ 55.6</u>
Represented by:					
Long-term debt	\$ 0.2	\$ 0.9	\$ 1.6	\$ 2.5	\$ 0.6
Income taxes not currently payable	5.7	5.6	4.7	4.5	4.4
Shareholders' equity	<u>41.7</u>	<u>43.6</u>	<u>59.2</u>	<u>62.6</u>	<u>50.6</u>
	<u>\$ 47.6</u>	<u>\$ 50.1</u>	<u>\$ 65.5</u>	<u>\$ 69.6</u>	<u>\$ 55.6</u>

SALES

Lead concentrate (tons)	80,987	79,854	123,398	116,505	131,427
Zinc concentrate (tons)	262,978	333,534	290,359	395,334	361,730

